

No. 10 /44/DPM

Jakarta, December 10, 2008

CIRCULAR LETTER

To

ALL SHARIA COMMERCIAL BANKS AND SHARIA DIVISIONS
IN INDONESIA

Subject : Procedures of Repurchase Agreement (Repo) Transaction of
Government Sharia Securities (SBSN) with Bank Indonesia

Following the enactment of Bank Indonesia Regulation Number 10/36/PBI/2008 dated December 10, 2008, concerning Sharia Monetary Operations (State Gazette of the Republic of Indonesia Number 197 of 2008, Supplement to the State Gazette of the Republic of Indonesia Number 4944), it is deemed necessary to enact provisions concerning Procedures of repo transaction of Government Sharia Securities (SBSN) with Bank Indonesia in a Bank Indonesia Circular Letter as follows.

I. GENERAL PROVISIONS

Terminologies used in this Circular letter are defined as follows.

1. Bank is a Sharia Commercial Bank and Sharia Business Unit.
2. Sharia Commercial Bank is the Sharia Commercial Bank as referred to in Act Number 21 of 2008 concerning Sharia Banking.
3. Sharia Business Unit is the Sharia Business Unit as referred to in Act Number 21 of 2008 concerning Sharia Banking.
4. Government Sharia Securities, hereinafter to be referred to as SBSN, is a government securities denominated in the rupiah issued under sharia principles as an evidence of placement of SBSN assets.

5. Sharia ...

5. Sharia Monetary Operation, hereinafter to be referred to as OMS, is an implementation of monetary policy by Bank Indonesia in effort of monetary control through open market operations and provision of standing facilities under sharia principles.
6. Sharia Standing Facility is a facility provided by Bank Indonesia for Bank in the OMS.
7. Haircut is a margin stipulated by Bank Indonesia as a deducting factor of SBSN price.
8. Bank Indonesia - Real Time Gross Settlement System, hereinafter to be referred to as BI-RTGS System, is a rupiah electronic fund transfer system among members as referred to in provisions regulating the BI-RTGS System
9. Bank Indonesia - Scripless Securities Settlement System, hereinafter to be referred to as BI-SSSS, is a system that provides transaction facilities with Bank Indonesia including its administration and electronic securities administration as referred to in provisions regulating the BI-SSSS.
10. Repurchase Agreement Transaction of SBSN, hereinafter to be referred to as Repo SBSN, is a SBSN selling transaction by Bank to Bank Indonesia with a commitment to repurchase at a price and term as agreed in Sharia Standing Facilities.
11. Demand Deposit Account is a demand deposit account of Bank in the rupiah with Bank Indonesia.
12. Trading Account is a securities account of Bank used to register ownership of tradable securities in the Central Registry.
13. Commercial Bank Daily Report System, hereinafter to be referred to as LHBUS System, is a reporting facility of Bank to Bank Indonesia on daily basis, including provision of information on money market and announcements from Bank Indonesia.

II. GENERAL REQUIREMENTS

1. Repo SBSN shall be conducted using *al bai'* (selling buying) contract enclosed with *al wa'ad* (commitment) by Bank to Bank Indonesia in separated document to repurchase the SBSN at a term and price as agreed.
2. Maturity of the Repo SBSN as referred to in number 1 shall be no longer than 14 (fourteen) calendar days since transaction settlement date up to maturity date.
3. If the Repo SBSN maturity date is a holiday, the Repo SBSN maturity date as referred to in number 2 shall be the following business day.
4. Bank Indonesia shall determine SBSN repo rate at the prevailing BI-Rate on the transaction date added with a margin of 50 (fifty) basis points.
5. Bank Indonesia may revise the margin as referred to in number 4 which shall be announced through the BI-SSSS, LHBUS System, and/or other facilities stipulated by Bank Indonesia before Repo SBSN window time opens (T+0) at the latest.
6. Bank Indonesia shall open the Repo SBSN window time by announcement through the BI-SSSS, LHBUS System, and/or other facilities stipulated by Bank Indonesia.
7. Bank Indonesia may change or close the Repo SBSN window time and announce the change or closing through the BI-SSSS, LHBUS System, and/or other facilities stipulated by Bank Indonesia no later than 1 (one) business day prior to the change or closing of window time.
8. Bank shall submit Repo SBSN to Bank Indonesia for its own behalf.
9. Bank may submit Repo SBSN if the Bank is not being imposed any sanction of temporary termination to participate in OMS activities.
10. Bank shall submit Repo SBSN after signing up a Commitment (*wa'ad*) to Repurchase the SBSN in Repo SBSN, adequately stamped (as example in Appendix 1) and constituting an inseparable part from this Circular Letter,

and ...

- and submit supporting requisite documents to Bank Indonesia.
11. The commitment (*wa'ad*) as referred to in number 10 shall be signed up by the Board of Directors of Bank or Bank Official authorized by the Board of Directors with a Power of Attorney as the basis for Bank to propose Repo SBSN.
 12. Signing of the commitment (*wa'ad*) as referred to in number 10 shall be performed when the Bank submits Repo SBSN for the first time and shall continue to be in effect as far as there is no change of contents and data of the supporting documents.
 13. The supporting documents as referred to in number 10 shall include :
 - a. photocopy of Bank statutes; and
 - b. photocopy of valid personal identity, such as Resident's Identity Card (KTP) or passport of the Board of Directors, Chief Executive Officer (CEO), and/or Bank Official granted with authority to sign up the commitment (*wa'ad*) as referred to in number 10.
 14. Bank conducting Repo SBSN shall be accountable for the reliability of the Repo SBSN data submitted.
 15. Bank conducting Repo SBSN shall be required to :
 - a. hold adequate SBSN types and series in its Trading Account for settlement of SBSN selling by repo no later than on the Repo SBSN settlement (first leg); and
 - b. hold adequate balance in its Demand Deposit Account for SBSN repurchase settlement on the Repo SBSN maturity date (second leg).
 16. Settlement of Repo SBSN shall be conducted on the date of transaction (same day settlement) by the mechanism of transaction by transaction settlement (gross to gross) and delivery versus payment.

III. SBSN REQUIREMENTS AND VALUE

1. SBSN of Bank tradable under repo shall :

a. be ...

- a. be registered in Trading Account in the BI-SSSS; and
 - b. hold remaining days to maturity of no less than 10 (ten) business days since 1 (one) day after Repo SBSN maturity.
2. SBSN tradable under repo by Bank shall amount at the maximum of nominal value of SBSN held by Bank.
 3. Bank Indonesia shall determine types and series of SBSN tradable under repo.
 4. Bank Indonesia shall determine and announce price of SBSN tradable under repo taking into account of market price of each SBSN type and series.
 5. Bank Indonesia shall determine the rate of Haircut for each SBSN type and series in purpose of determination the settlement value of SBSN selling.
 6. SBSN price used in calculation of SBSN selling on Repo SBSN date (first leg) shall be the same as the SBSN price used in calculation of SBSN repurchase on maturity date of Repo SBSN (second leg).

IV. REPO SBSN SUBMISSION

1. Bank Indonesia, c.q. Directorate of Monetary Management-Monetary Operation Bureau (DPM-BOpM), shall announce types and series of SBSN tradable under repo, SBSN repo rate, Repo SBSN maturity, and Haircut through the BI-SSSS and/or LHBUS System no later than before the Repo SBSN window time opens (T+0).
2. Bank shall submit Repo SBSN through the BI-SSSS or in writing by letter which shall be preceded by a notification through the Reuters Monitoring Dealing System (RMDS), facsimile, and/or telephone by specifying, among other things, types, series, and nominal value of SBSN under repo to the DPM-BOpM (an example of Repo SBSN submission by letter is presented in Appendix 2).
3. The window time of Repo SBSN is stipulated as follows.
 - a. If submitted through the BI-SSSS, the window time shall be from 4.00

p.m. up to ...

- p.m. up to 5.00 p.m. (western Indonesia standard time) every business day; or
- b. If submitted by letter, the window time shall be from 12.00 p.m. up to 4.00 p.m. (western Indonesia standard time) every business day.
4. Bank Indonesia shall determine and announce the submission procedures and transaction window time of Repo SBSN as referred to in number 3 through the BI-SSSS, LHBU System, and/or other facilities stipulated by Bank Indonesia.
 5. The submission procedures of Repo SBSN through the BI-SSSS as referred to in point 3.a shall comply with provisions regulating the BI-SSSS.
 6. Settlement value of each SBSN under repo shall be calculated based on nominal value, price, Haircut, SBSN accrued coupon, SBSN repo rate, and maturity of Repo SBSN. An example of Repo SBSN is presented in Appendix 3.

V. SETTLEMENT

1. Settlement of Repo SBSN through the BI-SSSS shall be conducted by the mechanism of transaction by transaction settlement (gross to gross) and delivery versus payment.
2. If the Repo SBSN is submitted by letter as referred to in point IV.3.b, Bank Indonesia and Bank shall conduct Repo SBSN settlement through the BI-SSSS Terminal (ST).
3. The Repo SBSN settlement as referred to in number 1 and number 2 comprises :
 - a. Settlement of SBSN selling (first leg)
 - 1) On Repo SBSN settlement date, DPM shall conduct first leg settlement after Repo SBSN window time closes.
 - 2) The first leg settlement value as referred to in number 1) shall be calculated as follows.

First Leg ...

$$\text{First Leg Settlement Value} = \left\{ \left[\text{Nominal Value of SBSN under Repo} \right] \times \left[\text{Price} - \text{Haircut} \right] \right\} + \left[\text{Accrued SBSN coupon} \right]$$

Notes :

Calculation of accrued SBSN coupon shall be based on actual number of days (actual per actual).

- 3) First leg settlement shall be conducted by :
 - a) debiting Trading Account at the amount of nominal value of SBSN under repo; and
 - b) crediting Demand Deposit Account at the amount of first leg settlement value as referred to in number 2).
- 4) Bank shall be required to provide adequate types and series of SBSN under repo for first leg settlement.
- 5) In the event of any failure in the provision of adequate types and series of SBSN by Bank as referred to in number 4), the first leg settlement of Repo SBSN shall be cancelled.
- 6) The cancellation of first leg settlement as referred to in number 5) shall only be imposed on Repo SBSN which fails to provide adequate types and series of SBSN.
- 7) If the cancellation of first leg settlement occurs more than 1 (one) time on a same day, the cancellation of transaction for the imposition of sanction shall be counted 1 (one) time.

b. Settlement of SBSN repurchase (second leg)

- 1) Second leg settlement shall be conducted automatically when the BI-SSSS opens on Repo SBSN maturity date.
- 2) The value of second leg settlement shall be calculated at the amount of :

$$\text{Second Leg Settlement Value} = \frac{\text{First Leg Settlement Value}}{\text{Value}} + \left\{ \frac{\text{SBSN Repo Fee}}{\text{Fee}} \times \left[\frac{t}{360} \right] \right\}$$

where ...

where t = number of Repo SBSN calendar days

Any payment of SBSN coupon occurring within the period of Repo SBSN shall reduce the second leg settlement value.

- 3) Second leg settlement shall be conducted by :
 - a) debiting Demand Deposit Account at the amount of the second leg settlement value as referred to in number 2); and
 - b) crediting Trading Account at the amount of nominal value of securities under repo.
- 4) Bank shall be required to provide adequate balance in Demand Deposit Account for second leg settlement.
- 5) In the event of any failure in the provision of adequate balance in Demand Deposit Account by Bank up to the BI-RTGS cut-off warning, the BI-SSSS shall cancel the second leg settlement automatically.
- 6) The cancellation of second leg settlement shall only be imposed on mature Repo SBSN which fails to provide adequate fund.
- 7) If the cancellation of second leg settlement occurs more than 1 (one) time on a same day, the cancellation of transaction for the imposition of sanction shall be counted 1 (one) time.
- 8) In order to fulfill Bank liabilities in the settlement of mature Repo SBSN due to cancellation of second leg settlement, Bank Indonesia shall :
 - a) settle Repo SBSN fee to be paid by debiting Demand Deposit Account through the BI-RTGS System; and
 - b) settle SBSN amounting to the nominal value of SBSN which settlement is cancelled, by treating the SBSN type and series cancelled to be repurchased by Bank as outright selling transaction automatically through the BI-SSSS.

VI. SANCTIONS ...

VI. SANCTIONS

1. In the event of any cancellation of Repo SBSN settlement as referred to in point V.3.a.5) and V.3.b.5), Bank shall be liable to sanctions in the form of :
 - a. written warning, with a copy to :
 - 1) Directorate of Sharia Banking, if the sanctions are imposed on a Bank which head office is located in the working area of Bank Indonesia Head Office; or
 - 2) Local Bank Indonesia Regional Office, c.q. Bank Supervision Team, if the sanction is imposed on a Bank which head office is located in the working area of a Bank Indonesia Regional Office; and
 - b. financial penalty of 1⁰/₀₀ (one per one thousand) of the nominal value of the cancelled Repo SBSN with a maximum amount of Rp1,000,000,000.00 (one billion Rupiah); and
 - c. temporary termination to participate in OMS activities for 5 (five) consecutive business days if the Bank is imposed written warning for the third time in a period of 6 (six) months due to cancellation of OMS transaction with Bank Indonesia in accordance with applicable provisions.
2. The written warning as referred to in point 1.a. and the notification on the sanction of prohibition of Repo SBSN submission as referred to in point 1.c. shall be delivered on 1 (one) business day after the cancellation of transaction
3. The sanction of financial penalty as referred to in point 1.b. shall be imposed by debiting Demand Deposit Account on 1 (one) business day after the cancellation of Repo SBSN settlement.

VII. CONCLUDING PROVISIONS

Provisions in this Circular Letter shall come into force as of December 10, 2008.

For ...

For the public to be informed, it is ordered that this Bank Indonesia Circular Letter be promulgated in the Official Government Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA

EDDY SULAEMAN YUSUF
DIRECTOR OF MONETARY MANAGEMENT

DPM